

# **How to ensure fair competition and define a level playing field?**

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## Constat

- No common definition of level playing field.
- Aim should be equality of opportunity (as in Chicago Convention) rather than equality of outcome.
- Inequality arises from natural advantage.
  - Geography.
  - General business environment.
- Inequality arises from subsidy.
  - Some of which may be tolerable.
  - Some undermine competition and efficiency in the long-run.
  - Operating subsidies tolerable only in very specific circumstances.
  - Transparency and international ICAO-endorsed framework needed.



## Air traffic rights

- U.S. domestic deregulation (1977-78) started wave
  - Impetus from under-served secondary airports
  - International open skies policy since 1992
- Canada pursues open skies “when in the national interest”
- China, gradual approach to foster growth of its 3 largest airlines
- E.U. single air transport market (1997) represents the ultimate regulatory convergence - yet to be fully replicated anywhere else;
- ASEAN moving towards a single market but with less convergence
- Australia and New Zealand - very liberal regimes, contrasting results



## Socio-economic consequences of liberalisation

- Generally beneficial:
  - Lowering fares through competition + low cost carrier entry
  - Increasing and facilitating seamless connectivity
  - Supporting the growth of tourism, trade, aerospace and wider economy
  - New opportunities for secondary airports
- Challenges balancing impacts on consumers and producers:
  - Fair competitive market (subsidies)
  - Maintaining socially acceptable labour standards
  - Mitigating environmental externalities from increased traffic



# Connectivity

- Function of generalised costs:  
prices, value of frequency, convenience of direct flights
- Key issue for all countries, but seen under different prisms:
  - Geographically disadvantaged or small countries:  
Linking to the global economy to support tourism and trade;
  - Large markets: Ensuring that they remain the linchpin connecting other markets, supporting own O/D market, air carriers, airports.
  - European hub carriers: concerned about losing connecting traffic to competing hubs in Turkey and the Gulf countries;
- Secondary airports benefit from frequency of service via local hubs but are attracted to new direct services to far-away hubs;
  - Does diverting traffic from the local hub to far-away hubs undermine overall connectivity?



## Access to airports

- Heathrow ≠ Frankfurt
- Newcastle ≠ Heathrow



## Fair competition

- Long history of public funding of aviation
  - No consensus as to what a level playing field is
  - No ICAO-level agreement on a framework for subsidies yet
  - US carriers 'white paper' on Gulf State subsidies highlights issues of transparency and defining unacceptable subsidies
  - Need for:
    1. Agreed international framework to define acceptable public subsidies, across the aviation value chain, with particular attention paid to SOEs
    2. Transparent and standardized reporting of public subsidies
    3. Enforcement mechanisms that do not impede liberalisation
    4. Model clauses for ASAs – predatory practices, subsidies
    5. Comity and convergence among consenting
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## Competition decisions

- Decisions on air service agreements made in the light of the expected balance of benefits and costs, taking an overall view
  - Balancing open skies (more competition) and anti-trust immunity (consolidation) in pursuing an efficient, competitive market
  - Balancing consolidation with entrance
- Impact of new entry on domestic industry means it is phased / constrained sometimes even when fair.



# Thank you

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